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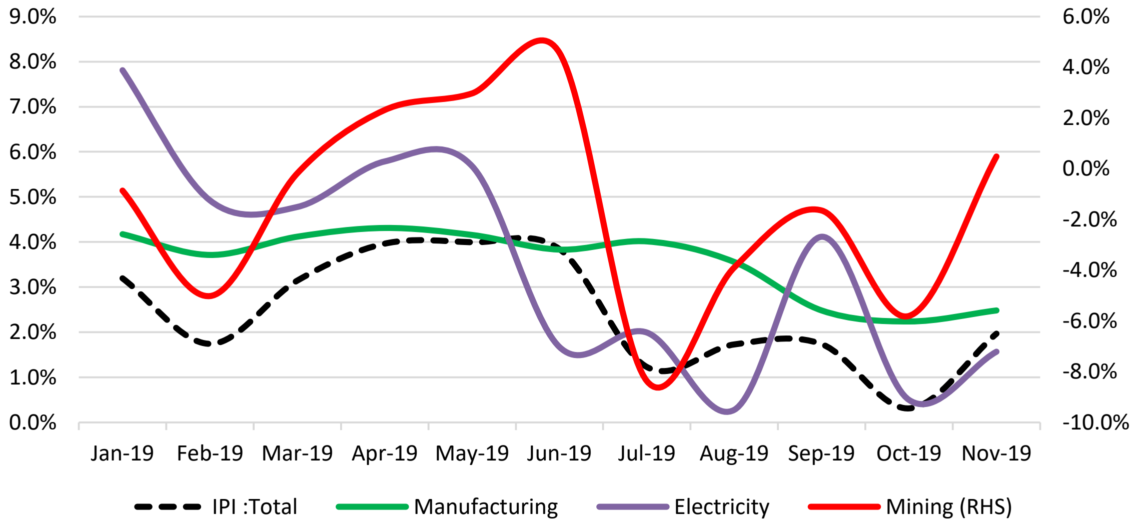
IPI grew at a decent rate in November

Facts

- Malaysia's Industrial Production Index (IPI) expanded by 2.0% year-on-year (y-o-y) in November last year from 0.3% in October. Anchoring the growth was Manufacturing sector which rose by 2.5% from 2.2% previously followed by 1.6% growth in Electricity (October: 0.5%) while Mining turned around to 0.5% after contracting 5.8% during October.
- Within the manufacturing sector, higher production growth was seen in Textile, Wearing Apparel, Leather Products & Footwear (November: 6.4% vs. October: 5.4%), Food, Beverages & Tobacco (November: 2.2% vs. October: 0.8%), Wood Products, Furniture, Paper Products, Printing (November: 5.5% vs. October: 4.6%), Petroleum, Chemical, Rubber & Plastic Products (November: 2.0% vs. October: 1.0%) and Non-Metallic Mineral Products, Basic Mineral & Fabricated Metal Products (November: 3.7% vs. October: 3.1%). These products accounted for 44.2% of total IPI.
- However, the Electrical & Electronic (E&E) products registered slower growth at 1.1% in November as compared to 2.4% in October. Meanwhile, Transport Equipment & Other Manufacturers growth sustained at 4.3% in November (October: 4.3%).
- Within the mining sub-indices, the Natural Gas output has gained back its momentum, growing by 3.7% in November from -6.3% in the previous month. Additionally, the pace of decline for Crude Petroleum has been softening at a rate of -3.3% from -5.1% in the preceding month.
- Cumulatively, industrial production averaged at 2.4% in the first eleven months of 2019 (11M2019). This was marginally lower as compared to 3.0% growth in the same period of 2018.

Chart 1: Industrial Production Index (y-o-y %)



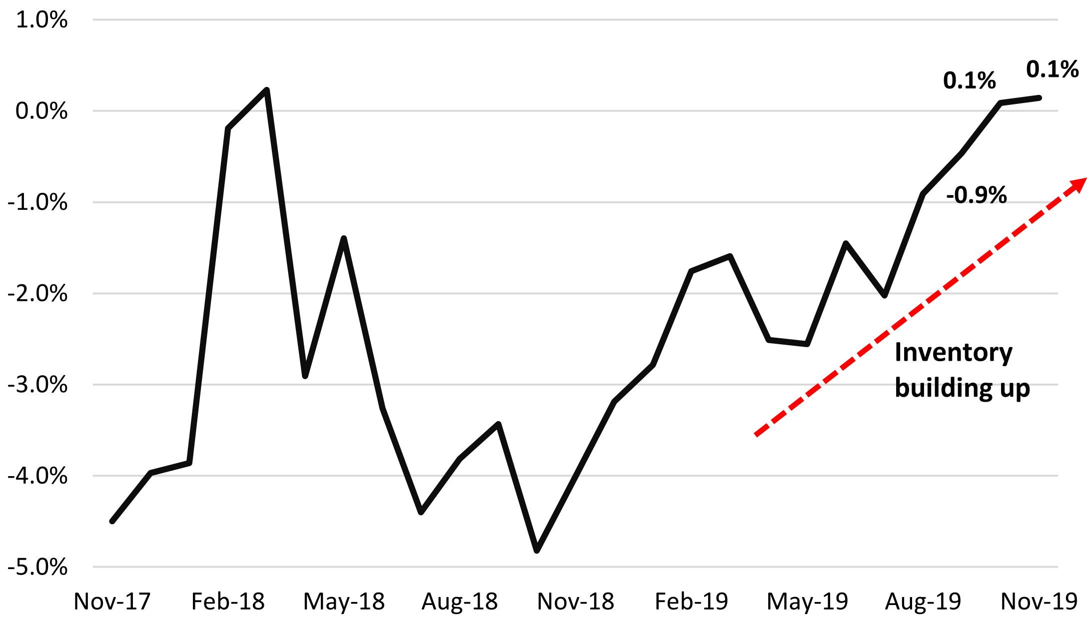
Source: CEIC, Bank Islam

Table 1: Industrial Production Index (y-o-y%)

	Weight	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	11M2018	11M2019
IPI	**100.0%**	**1.2%**	**1.7%**	**1.7%**	**0.3%**	**2.0%**	**3.0%**	**2.4%**
Mining	**25.1%**	**-8.4%**	**-3.9%**	**-1.6%**	**-5.8%**	**0.5%**	**-2.7%**	**-1.4%**
Crude Petroleum	12.2%	-22.7%	-9.5%	-4.7%	-5.1%	-3.3%	-2.0%	-5.7%
Natural Gas	12.9%	7.3%	1.2%	1.1%	-6.3%	3.7%	-3.3%	2.5%
Manufacturing	**68.3%**	**4.0%**	**3.6%**	**2.5%**	**2.2%**	**2.5%**	**4.8%**	**3.5%**
Food, Beverages and Tobacco	8.6%	0.8%	2.4%	1.5%	0.8%	2.2%	3.7%	3.2%
Textiles, Wearing Apparel, Leather Products and Footwear	1.3%	5.8%	6.0%	4.0%	5.4%	6.4%	4.3%	5.3%
Wood Products, Furniture, Paper Products, Printing	4.6%	5.6%	5.6%	5.8%	4.6%	5.5%	4.7%	5.4%
Petroleum, Chemical, Rubber and Plastic Products	20.6%	3.4%	3.0%	2.1%	1.0%	2.0%	4.0%	2.8%
Non-Metalic Mineral Products, Basic Mineral and Fabricated Metal Products	9.1%	4.4%	4.1%	3.8%	3.1%	3.7%	5.0%	4.0%
Electrical and Electronics Products	18.2%	4.9%	3.1%	0.8%	2.4%	1.1%	5.9%	3.0%
Transport Equipment and Other Manufactures	5.9%	5.8%	5.9%	6.3%	4.3%	4.3%	5.9%	6.0%
Electricity	**6.6%**	**2.0%**	**0.3%**	**4.1%**	**0.5%**	**1.6%**	**3.8%**	**3.5%**

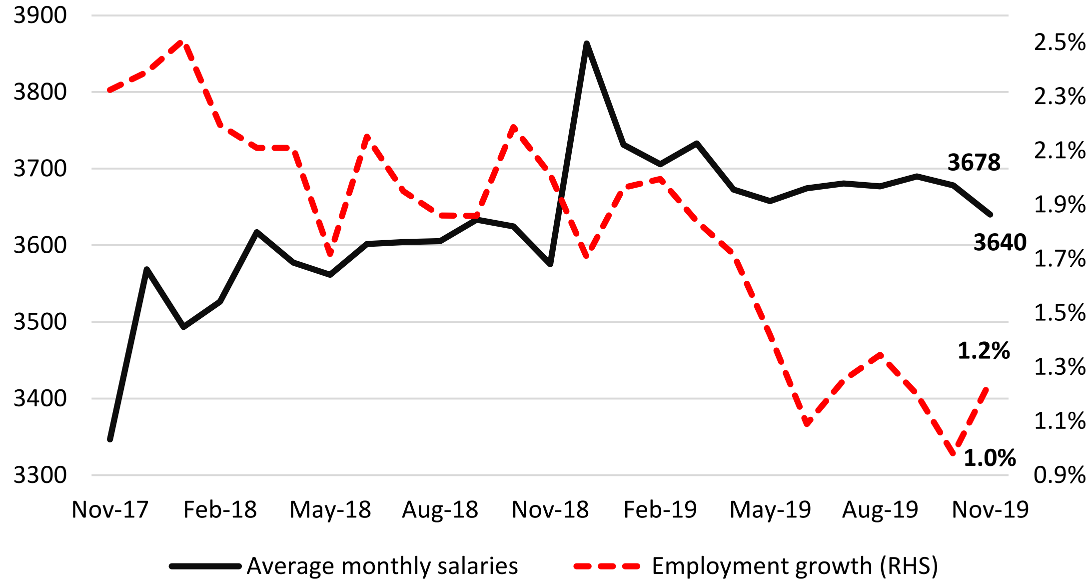
Source: CEIC, DOSM, Bank Islam

Chart 2: Estimates of Inventory level in manufacturing (production less sales)



Source: CEIC

Chart 3: Average monthly salaries in the manfacturing sector (RM) and employment growth in manufacturing sector y-o-y%



Source: CEIC

Our view

The latest IPI outturn had surpassed the consensus forecast of 1.0% (Trading Economics) and also in line with the latest manufacturing Purchasing Managers Index (PMI) which came in at 50 point during the month of December. However, the inventory level is seen to be building up as indicated by the difference between the manufacturing production growth and manufacturing sales growth (See Chart 2). Apart from that, the pace of manufacturing employment has been slowing with average growth for the first eleven months moderated to 1.5% from 2.1% in the same period of the previous year. The average monthly salaries earned by the manufacturing employees have also decreased gradually from RM3,690 in September to RM3,640 in November (October: RM3,678). This would mean manufacturers have been careful in deciding their number of manpower especially when the global economy remained highly uncertain. Notwithstanding, every cloud has a silver lining especially the semiconductor industries when 5-G network rollout is expected to intensify this year. The equipment maker companies have been experiencing a surge in order from China in particular the 3D Automated Optical Inspection (AOI). Meanwhile, the outsourced semiconductor assembly and testing (OSAT) players saw their aggregate revenue grew by 1.0% in the 3Q2019 amid a turbulent year in 2019[1]. This could translate into higher production activities in the semiconductor related products moving forward. Having said that, we anticipate **IPI would grow moderately at around 1.7% in 2020 from an estimated growth of 2.3% in 2019** due to the uncertainty in the global economy especially the ongoing trade war between the US and China. We would want to wait further evidence of the Phase One deal and the subsequent arrangement before making any changes to our existing forecast.

[1] https://klse.i3investor.com/blogs/kenangaresearch/2019-12-20-story-h1481881804-Technology_5G_and_China_to_Drive_Growth.jsp